



In partnership. With trust.

Mindtree

Sector: Technology

4QFY18 Result Update

CMP: ` 866

Blow out quarter; maintain Buy

Recommendation: Buy

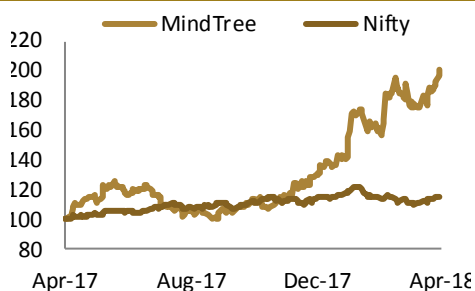
Market statistics

Current stock price (`)	866
Shares O/S (cr.)	16.4
Mcap (` cr)	14,201
52W H/L (`)	895/436
6m avg. volume	1,502,707
Bloomberg	MTCL IN

Shareholding pattern

Promoters	13.37
Domestic Institution	8.94
Foreign Institution	41.69
Non-institution	36.00
of which more than 1%	
Coffee Day	17.11
V G Siddhartha	3.34

Mindtree vs Nifty



Capital efficiency & valuations

Particulars	FY18	FY19E	FY20E
RoE (%)	21.4	20.9	21.9
EPS (`)	34.8	37.4	44.7
CEPS (`)	45.2	47.4	55.5
P/E (x)	22.3	23.1	19.4
P/BV (x)	4.6	4.5	4.0
EV/EBITDA (x)	15.5	13.5	11.3
Income growth (%)	4.3	13.7	11.4
EBITDA growth (%)	6.5	28.1	16.5
PAT growth (%)	36.2	7.7	19.6

Mindtree's Q4FY18 performance was higher-than expected on both the margin and revenue front. Revenue increased 5.5% QoQ to US\$226.2mn (up ~4.5% in cc terms). Margin was up 103bps to 16.5% primarily on account of favourable cross-currency movements and better operational efficiencies. TCV won in Q4 was US\$298mn (US\$244mn in 3QFY18, US\$209mn in 4QFY17) with digital comprising US\$102mn – which again was strong. Mindtree's comments regarding future business opportunities indicated a sustainable pick-up in revenue trajectory and margin recovery. We maintain our Buy recommendation on the stock on account of large deal ramp-ups and continued momentum in deal wins and pipeline courtesy improving positioning in digital.

Higher-than-expected margins: Mindtree's Q4FY18 revenue was up 5.5% QoQ in USD terms to US\$226.2mn. Volume increased 7.8% QoQ (offshore increased 7.9%, onsite increased by 7.3%). Blended pricing decreased ~2% QoQ. The growth was primarily due to strong performance across verticals - Technology, Media and Services, which grew by 8.4% QoQ. Retail, CPG & Manufacturing grew by 8.7% QoQ, while Travel & Hospitality grew by 9.7% QoQ. BFSI after a good show in Q3FY18, de-grew by 4.2% QoQ. Digital business grew 18.9% YoY. Mindtree's comments regarding future business opportunities indicated a sustainable pick-up in revenue trajectory and margin recovery.

Order signing healthy, provides robust revenue visibility: Clients #2-5 were flattish QoQ, while Top client (was up 13.2% QoQ). **Strong TCV signings:** Mindtree's total contract value signed during the quarter was at US\$298mn (US\$209mn in Q4FY17, US\$244mn in Q3FY18). Out of this, new deal wins accounted for US\$42mn, and contracts worth US\$237mn to be executed within a year. US grew 7.5% QoQ on a higher base in Q3FY18, Europe grew by 6.6% (had declined by 4.7% in Q3FY18). 523 employees (net) joined MTCL to take the employee base to 17,723 (a gross addition of 873). Utilization (excluding trainees) was up 90bps QoQ at 75.2%. Utilization (including trainees) was down 100bps QoQ at 73.8%.

Digital—positioning and improving sales cycle: Mindtree has made significant investments in digital over the past couple of years and developed domain expertise in Salesforce, SAP/S4 HANA, Adobe, Sitecore and Azure. These efforts are reflecting in increased deal flow. Digital deal wins TCV at US\$426mn was up ~37% YoY in FY18. Factors working for Mindtree are (1) good work in pilot digital projects for marquee clients, and (2) more decisive clients; Mindtree is witnessing shorter decision cycles and increase in size of digital deals (median size up to US\$3-5 mn from sub-US\$1 mn earlier). Additionally, Mindtree is benefiting from the experience of its new digital business head.

FY19 Outlook: We expect a revival in both, revenue trajectory and margin expansion on account of (1) An improvement in client IT spends, healthy deal pipeline and increasing win-rates (pipeline ~20% higher and ~30% win-rate), (2) Multiplicity of service offerings and supplementing revenue growth with digital (highest share amongst peers at 44% of revenue, with an increasing deal size), (3) Stability in acquisitions, and (4) No pricing pressure from large clients expected in the coming future. MTCL has guided to FY19US\$ revenue growth rate and margins to be higher than FY18.

Valuation & Outlook: Mindtree's margin recovery commenced in 2Q with 50bps expansion in EBITDA margin led by tightening of execution. Continued tightening of execution, improvement in revenue growth trajectory and reduction in loss of acquired entities offer significant headroom for margin expansion. We maintain our Buy recommendation on the stock on account of large deal ramp-ups and continued momentum in deal wins and pipeline courtesy improving positioning in digital.

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Exhibit 1: Quarterly details (IND-AS)

` mn	4QFY17	3QFY18	4QFY18	QoQ (%)	YoY (%)	Comments
Revenues (in US\$ mn)	195.6	214.3	226.2	5.6	15.6	Volumes increased 7.8%, pricing decreased ~2%.
Revenues	13,181	13,777	14,640	6.3	11.1	
- Operating costs	11,540	11,703	12,285	5.0	6.5	
EBITDA	1,641	2,074	2,355	13.5	43.5	
EBITDA margin (%)	12.4	15.1	16.1	103bps	364bps	Margin expansion - depreciation (~70bps) and operational efficiencies (~30bps)
- Interest expense	47	46	58	26.1	23.4	
- Depreciation	468	419	383	(8.6)	(18.2)	
+ Other income, net (incl forex)	133	59	591	901.7	344.4	
PBT	1,259	1,668	2,505	50.2	99.0	
- Taxes	287	253	683	170.0	138.0	
Effective tax rate (%)	22.8	15.2	27.3	1,210bps	447bps	Effective tax rate for FY19 to be between 27-28%
PAT	972	1,415	1,822	28.8	87.4	

Source: Company

Exhibit 2: Change in estimates

` mn	FY19E			FY20E		
	Old	New	% Chg	Old	New	% Chg
Revenue (US\$ mn)	948	956	0.8	1,054	1,065	1.0
Revenue	61,606	62,123	0.8	68,520	69,217	1.0
EBITDA margin (%)	14.3	15.3	95bps	14.8	16.0	115bps
EPS (₹)	35.1	37.4	6.6	41.6	44.7	7.5

Source: Trust Research

Geography wise Revenues: US grew 7.5% QoQ on a higher base in Q3FY18, Europe grew by 6.6% (had declined by 4.7% in Q3FY18).

Exhibit 3: Geographical wise Performance

Geographical mix	Q4FY16	Q1FY17	Q2FY17	Q3FY17	Q4FY17	Q1FY18	Q2FY18	Q3FY18	Q4FY18
US	65.9	66.7	67.6	68.7	69.8	69.6	67.5	69.7	71.0
Europe	24.5	23.1	21.4	20.8	20.8	21.1	22.8	20.9	21.1
India	2.8	3.1	3.5	3.1	2.8	3.0	3.5	3.2	3.2
RoW	6.8	7.1	7.5	7.4	6.6	6.3	6.2	6.2	4.7
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Source: Company

Vertical Performance: Growth was led by Technology, Media and Services, which grew by 8.4% QoQ. Retail, CPG & Manufacturing grew by 8.7% QoQ, while Travel & Hospitality grew by 9.7% QoQ. BFSI after a good show in Q3FY18, de-grew by 4.2% QoQ.

Exhibit 4: Service offering segmentation

Service offerings	Q4FY16	Q1FY17	Q2FY17	Q3FY17	Q4FY17	Q1FY18	Q2FY18	Q3FY18	Q4FY18
Development	23.0	22.7	22.0	22.3	21.4	22.6	23.1	24.5	25.5
Engineering	9.8	9.8	9.8	9.5	9.5	9.6	9.2	9.1	9.1
Maintenance	18.0	17.3	17.8	17.6	18.3	19.0	17.7	16.6	15.7
Consulting & IP Licensing	4.0	4.1	3.8	3.9	4.0	3.4	4.0	4.0	3.9
Package Implementation	13.6	13.9	13.1	12.4	12.6	11.5	11.2	11.3	11.2
Independent Testing	12.6	12.8	12.4	12.6	12.5	11.8	12.1	12.6	12.7
IMS	17.5	18.4	19.9	20.3	20.4	21.0	21.8	21.1	21.0
IP Licensing	1.3	1.0	1.2	1.4	1.3	1.1	1.0	0.8	0.9
Total revenue	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Source: Company



Human Resources: 523 employees (net) joined MTCL to take the employee base to 17,723 (a gross addition of 873). Utilization (excluding trainees) was up 90bps QoQ at 75.2%. Utilization (including trainees) was down 100bps QoQ at 73.8%.

Exhibit 5: Employee strength at MTCL

Vertical Mix	Q4FY16	Q1FY17	Q2FY17	Q3FY17	Q4FY17	Q1FY18	Q2FY18	Q3FY18	Q4FY18
Software Professionals	15,623	15,092	15,189	15,068	15,413	15,441	15,782	16,068	16,595
Sales and Support	1,000	1,018	1,030	1,031	1,057	1,120	1,128	1,132	1,128
Total employees	16,623	16,110	16,219	16,099	16,470	16,561	16,910	17,200	17,723
Gross Addition	1,020	210	744	470	914	645	856	857	873
Net Addition	380	(513)	109	(120)	371	91	349	290	523
Attrition (LTM, %)	15.7	16.5	16.4	16.1	15.1	14.0	13.0	12.6	12.5

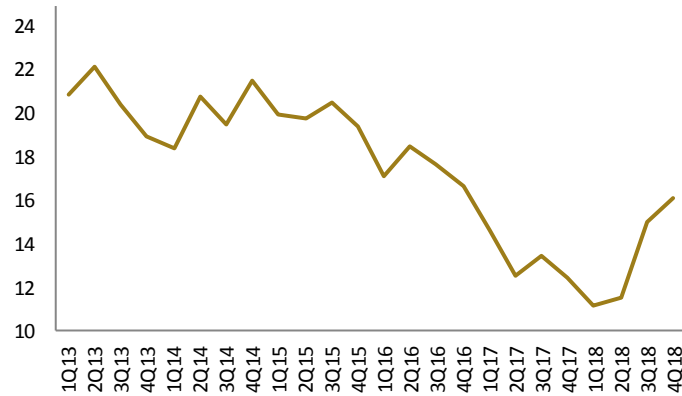
Source: Company, Trust Research

Exhibit 6: Client details

Employees	Q4FY16	Q1FY17	Q2FY17	Q3FY17	Q4FY17	Q1FY18	Q2FY18	Q3FY18	Q4FY18
Top client	11.7	13.1	14.4	14.1	14.3	15.3	16.1	16.6	17.8
Top 5 clients	29.7	29.6	30.0	30.1	30.7	30.1	30.1	31.6	32.0
Top 10 clients	42.7	42.6	42.5	42.3	41.9	41.5	41.9	43.7	43.7
Number Of Active Clients	348	343	337	348	328	336	327	344	338
New Client Additions	37	17	18	21	20	20	24	28	23
\$1 Mn Clients	101	98	107	106	111	113	114	114	118
\$5 Mn Clients	31	31	30	30	30	33	38	37	38
\$10 Mn Clients	15	16	16	17	16	16	16	15	17
\$25 Mn Clients	6	5	6	4	4	3	3	3	4
\$50 Mn Clients	2	2	2	1	1	1	1	1	1
\$100 Mn Clients	0	0	0	1	1	1	1	1	1

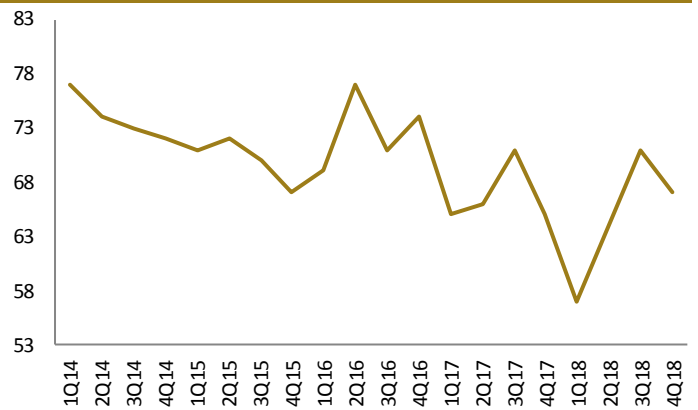
Source: Company

Exhibit 7: Margin was better than we had expected



Source: Company, Trust

Exhibit 8: DSO decreased by 4 days QoQ to 67



Source: Company, Trust



Financials

Income Statement (` mn)

Year End-March	FY16	FY17	FY18	FY19E	FY20E
Revenues	46,730	52,364	54,628	62,123	69,217
Op. Expenses	38,520	45,183	47,223	52,641	58,171
EBITDA	8,210	7,181	7,405	9,482	11,046
Other Income	839	417	1,902	800	1,000
Depreciation	1,658	1,858	1,715	1,632	1,772
EBIT	7,391	5,740	7,592	8,650	10,274
Interest	160	191	169	182	146
PBT	7,231	5,549	7,423	8,468	10,128
Tax	1,706	1,363	1,722	2,328	2,785
PAT	5,525	4,186	5,701	6,140	7,343
Ex. ordinary	-	-	-	-	-
Adj Pat	6,033	4,186	5,701	6,140	7,343

Key Parameters

Year End-March	FY16	FY17	FY18	FY19E	FY20E
Per share (`)					
EPS	32.9	24.9	34.8	37.4	44.7
CEPS	42.8	36.0	45.2	47.4	55.5
BVPS	143.9	153.4	167.2	190.4	218.5
DPS	10.5	8.0	11.0	12.0	15.0
Payout (%)	37.3	37.6	37.0	37.5	37.0
Valuation (x)					
P/E	19.9	18.2	22.3	23.1	19.4
P/BV	4.6	3.0	4.6	4.5	4.0
EV/EBITDA	12.3	9.0	15.5	13.5	11.3
Dividend Yield (%)	1.6	1.8	1.4	1.4	1.7
Return ratio (%)					
EBITDA Margin	17.6	13.7	13.6	15.3	16.0
PAT Margin	11.8	8.0	10.4	9.9	10.6
ROAE	24.7	16.8	21.4	20.9	21.9
ROACE	32.4	22.2	26.4	26.7	28.1
Leverage Ratios (x)					
Long Term D/E	0.0	0.0	0.0	0.0	0.0
Net Debt/Equity	(0.2)	(0.3)	(0.4)	(0.4)	(0.4)
Debt/EBITDA	0.1	0.0	0.0	0.0	0.0
Interest Coverage	-	-	-	-	-
Current ratio	2.4	2.6	2.5	2.7	2.8
Growth Ratios (%)					
Income growth	31.2	12.1	4.3	13.7	11.4
EBITDA growth	15.8	(12.5)	6.5	28.1	16.5
PAT growth	3.0	(24.2)	36.2	7.7	19.6
Turnover Ratios					
F.A Turnover x	6.6	8.8	10.7	11.3	12.1
Debtors Days	65	65	64	63	64
Payable days	5	4	4	4	4

Balance Sheet (` mn)

Year End-March	FY16	FY17	FY18	FY19E	FY20E
Equity Share Capital	1,678	1,680	1,639	1,641	1,643
Reserves & Surplus	22,471	24,091	25,775	29,172	32,594
Total Shareholders Fund	24,149	25,771	27,414	30,813	34,237
Non- current liabilities	450	(310)	(224)	(222)	(213)
Long term borrowings	765	243	9	9	9
Deferred tax liabilities	(406)	(624)	(318)	(318)	(318)
Other LT liabilities & prov	91	71	85	87	96
Current Liabilities	7,764	7,821	9,857	10,738	11,506
Short term borrowings	415	978	3,000	2,950	2,900
Trade payables	1,890	1,651	1,710	1,875	2,072
Other cur liabilities & Prov	5,459	5,192	5,147	5,913	6,534
Total Liabilities	32,363	33,282	37,047	41,329	45,530
Assets					
Non- current Assets	14,089	12,672	12,016	12,639	13,159
Fixed assets	7,037	5,942	5,121	5,489	5,717
Non-current investments	4,877	4,528	4,597	4,597	4,597
Long-term loans & adv	844	876	751	851	948
Other non-current assets	1,331	1,326	1,547	1,702	1,896
Current assets	18,274	20,610	25,031	28,690	32,371
Current investments	2,266	5,869	7,206	8,206	9,206
Trade receivables	9,728	8,962	10,155	11,403	12,706
Cash & Bank balances	2,332	2,508	3,289	4,314	5,150
Short term loans & adv.	2,799	2,237	3,098	3,404	3,793
Other current assets	1,149	1,034	1,283	1,362	1,517
Total Assets	32,363	33,282	37,047	41,329	45,530

Cash flow Statement

Year End-March	FY16	FY17	FY18	FY19E	FY20E
PBT	7,231	5,549	7,423	8,468	10,128
Depreciation	1,701	1,640	2,021	1,632	1,772
Interest Exp	160	191	169	182	146
CF before W.cap	9,092	7,380	9,613	10,282	12,046
Inc/dec in W.cap	3,732	(890)	2,371	956	1,311
Op CF after W.cap	5,360	8,270	7,242	9,327	10,735
Less Taxes	1,706	1,363	1,722	2,328	2,785
Net CF From Operations	3,654	6,907	5,520	6,998	7,950
Inc/(dec) in F.A + CWIP	3,708	763	894	2,000	2,000
(Pur)/sale of Investments	870	3,254	1,406	1,000	1,000
Others	(160)	(191)	(169)	(182)	(146)
CF from Invst Activities	(4,738)	(4,208)	(2,469)	(3,182)	(3,146)
Loan Raised	1,157	41	1,788	(50)	(50)
Equity Raised	557	(992)	(1,948)	(437)	(1,201)
Dividend	2,061	1,572	2,110	2,304	2,718
CF from Fin Activities	(347)	(2,523)	(2,270)	(2,791)	(3,969)
Net inc /(dec) in cash	(1,431)	176	781	1,025	836
Op. bal of cash	3,763	2,332	2,508	3,289	4,314
Cl. balance of cash	2,332	2,508	3,289	4,314	5,150



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